

**Senate Budget & Fiscal Review**  
*Senator Wesley Chesbro, Chair*



Subcommittee No. 3  
on  
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair  
Senator Gilbert Cedillo  
Senator Tom McClintock  
Senator Bruce McPherson  
Senator Deborah Ortiz

.....  
Thursday, March 25, 2004  
Upon Conclusion of Senate Floor Session  
Room 4203  
.....

<u>Item</u>	<u>Description</u>	<u>Page</u>
0559	Secretary for Labor and Workforce Development	2
7100	Employment Development Department	3
7350	Department of Industrial Relations	7
8955	Department of Veterans Affairs	10

**0559 Secretary for Labor and Workforce Development**

**Purpose:** The Labor and Workforce Development Agency brings together the departments, boards and commissions that train, protect and provide benefits to employees and employers of California, such as unemployment insurance and workers' compensation. The roles and responsibilities of the agency are codified in Chapter 859, Statutes of 2002 (SB 1236). The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

**Budget:** The Governor proposes \$2.1 million (\$0, General Fund) and 13.2 positions for the Secretary's budget.

**VOTE ONLY ITEM**

No issues have been raised with the Secretary's proposed budget.

**Budget issue:** Does the Subcommittee wish to approve the Secretary's proposed budget?

---

## **7100            Employment Development Department**

**Purpose:** The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serves the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and assists disadvantaged and welfare-to-work job seekers by providing employment and training programs. In addition, EDD collects and provides economic, occupational, and socio-demographic labor market information concerning California's workforce.

**Budget:** The Governor proposes \$12.62 billion (\$18.8 million General Fund), a decrease of \$836.7 million (6.2 percent) from the current-year budget.

### **VOTE ONLY ITEMS:**

#### **1. Unemployment Insurance Administration**

**Background:** The Employment Development Department administers Unemployment Insurance benefits in California. EDD is responsible for processing of weekly claims, eligibility determinations, appeals and other administrative activities. Federal funding covers most Unemployment Insurance (UI) administration costs. Federal funding for UI administration has declined by 14 percent while workload has increased by 15.6 percent.

According to EDD projections, Unemployment Insurance workload will decrease by 3.6 percent in the current year. Workload remains 15 percent above the 2001-02 level.

**Governor's Budget:** The budget maintains funding for the administration of unemployment insurance at the current year level. It provides a \$20.8 million augmentation from the Employment Development Department Contingent Fund to offset a reduction in available federal Reed Act funds.

**Budget issue:** Does the Subcommittee wish to maintain the proposed \$20.8 million augmentation from the EDD Contingent Fund to offset a reduction in federal funds?

#### **2. Unemployment Insurance Benefit Payment Control**

**Background:** As part of its administration of Unemployment Insurance, EDD makes efforts to assure appropriate payment of benefits and fraud control. The department's benefit payment control activities include review and post-audits of eligibility determinations, benefit payments, and wage records; investigation of fraud and implementation of corrective actions; correction of benefit payment records; and detection and collection of UI benefit overpayments.

---

**Governor's Budget:** The budget maintains funding for the UI benefit payment control activities at the current year level. It provides \$12.6 million from the Benefit Audit Fund to offset a reduction in available Reed Act funds.

**Budget issue:** Does the Subcommittee wish to maintain the proposed \$12.6 million augmentation from the Benefit Audit Fund to offset a reduction in federal funds?

### **3. Job Services Program**

**Background:** The Job Service Program works to facilitate the match between employers and qualified workers. It supports CalJOBS, an Internet based job search system where employers post job listings and browse resumes of job seekers; and job seekers store resumes and browse job listings. It also assists unemployed workers with job search activities.

**Governor's Budget:** The budget provides \$16.1 million from the Employment Development Department Contingent Fund to partially offset a loss in federal Reed Act funds to the Job Service 90 Percent program. Job Service program funding will decrease by \$12.9 million or 11 percent in the budget year. Absent the proposed augmentation, program funding would decline by 27 percent.

According to the Department, failure to restore the lost federal funding will lead to 360,000 fewer job listings being posted in CalJOBS; 202,000 fewer job seekers finding employment through CalJOBS; 422,000 fewer job seekers receiving employment services; and 14,000 employers not receiving services to register job listings.

## **DISCUSSION ITEMS:**

### **1. Unemployment Insurance Automation Improvements**

**Background:** Last year, the Legislature provided a \$85 million augmentation in Reed Act funds to the Employment Development Department to fund automation improvements that will increase EDD's capacity to detect and control fraud. The funding will support the redesign of the unemployment insurance continued claims system, improve the service levels at the unemployment insurance call centers, and prevent and detect fraud in the unemployment insurance system.

**The Continued Claims Redesign (CCR) project will provide new ways for clients to certify for benefits and improve the Department's ability to detect and prevent fraud.** The system will include telephone certification, which does not allow certifications to be submitted early, incomplete or incorrect. It will provide data analysis tools to assist the department in detecting and preventing fraud and incorporate use of a Personal Identification Number (PIN), telephone and Internet certification. Lastly, the CCR project will provide software tools to improve the quality of and access to information about UI available on the department's website.

---

The Department of Finance approved the CCR project in October 2003. The Health and Human Services Data Center (HHSDC) will manage the project in accordance with an interagency agreement between EDD and HHSDC. The HHSDC is in the process of establishing the Project Management Office. Work has begun to obtain services of a vendor to review the project, create detailed system requirements documentation, and assist in the development of the Request for Proposal to hire the primary vendor. The Department plans to award the contract by July 2005 and to implement telephone certification by April 2006. The project will be completed by June 2008.

**The Call Center Network Platform & Application Upgrade Project will improve the UI call center platform security and redesign the interactive voice response system.**

The project includes a redesign of the Interactive Voice Response system to expand self-service information and reduce the number of calls that require assistance from call center staff. A total of \$16.4 million has been appropriated for the project. The project will replace the existing call center platform, expand EDD's ability to handle incoming calls, allow EDD to match telephone numbers with Social Security Numbers to reduce fraud and reduce on-going non-personnel services costs by \$500,000 per year.

The Department of Finance approved the CCR project in October 2003. The Health and Human Services Data Center will manage the project in accordance with an interagency agreement between EDD and HHSDC. The HHSDC is in the process of establishing the Project Management Office. Work has begun to obtain services of a vendor to review the project, create detailed system requirements documentation, and assist in the development of the Request for Proposal to hire the primary vendor. The department plans to award the contract by December of 2004 and to complete implementation by November 2006.

**Subcommittee request:** The Subcommittee has requested that the Employment Development Department provide an update on the implementation status of the two UI automation projects funded last year, including timetable to achieve key fraud control capabilities and to completion.

## **2. Workforce Investment Act**

**Background:** The federal Workforce Investment Act of 1998 seeks to strengthen coordination among various employment, education, and training programs, and support the delivery of employment and training services. The 63 member Workforce Investment Board (WIB) advises the Governor on the operations of the state workforce investment system; however, the board's actions are not binding on the Governor. Pursuant to federal law, 85 percent of WIA funds (an estimated \$449 million in 2004-05) are allocated to local WIBs, formerly known as Private Industry Councils. The remaining 15 percent of WIA funds (\$67 million) is available for discretionary purposes such as administration, statewide initiatives, current employment service programs, or competitive grants. The Governor's budget does not include an expenditure plan for the federal Workforce Investment Act (WIA) discretionary funds. In order to ensure that the WIA discretionary spending is consistent with legislative priorities, the Legislative Analyst Office (LAO)

---

recommends the subcommittee deny the expenditure authority for these federal funds until an expenditure plan is submitted to the Legislature. (Reduce Item 7100-001-0869 by \$16.8 million.)

**Budget Issue:** Does the Subcommittee wish to adopt the LAO recommendation?

## **7350 Department of Industrial Relations**

The objective of the Department of Industrial Relations is to protect the workforce in California, improve working conditions, and advance opportunities for profitable employment. The department is continually working toward this objective by enforcing workers' compensation insurance laws and adjudicating workers' compensation insurance claims, working to prevent industrial injuries and deaths, promulgating and enforcing laws relating to wages, hours, and conditions of employment, promoting apprenticeship and other on-the-job training, assisting in negotiations with parties in dispute when a work stoppage is threatened, and by analyzing and disseminating statistics which measure the condition of labor in the state.

**Budget:** The Governor proposes \$281.9 million (\$62.2 million General Fund), an increase of \$2.3 million from the current-year budget.

### **VOTE ONLY ITEMS**

#### **1. Uninsured Employers Fund and Subsequent Injuries Fund Administration**

**Background:** The Budget Act of 2003 and related trailer bills transferred functions and funding for administration of the Uninsured Employers Fund and the Subsequent Injuries Fund from the Department of Industrial Relations to the State Compensation Insurance Fund. The Administration has now determined that transferring the two programs to the State Compensation Insurance Fund will result in increased administration costs.

**Governor's Budget:** The budget proposes to reinstate 63 positions and \$1.1 million in funding to continue DIR administration of the programs.

**Budget issue:** Does the Subcommittee wish to approve the proposed restoration of positions and funding to support DIR administration of the Uninsured Employers Fund and the Subsequent Injuries Fund?

### **ITEMS FOR DISCUSSION**

#### **1. LAO Option – Consolidate complaint investigations within DIR**

**Background:** As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO provides an option for consolidating complaint investigations. According to the LAO, the Division of Apprenticeship Standards approves and certifies apprenticeship programs for various occupations and trades and investigates complaints related to these programs. These complaint activities could be consolidated into the department's Division of Labor Standards Enforcement (DLSE). The DLSE currently handles all other workplace complaints related to labor standards. This could result in improved investigative efficiencies. The LAO indicates that the

---

DLSE could work within its \$36 million General Fund budget to investigate apprenticeship complaints on a priority basis.

The Administration reports that the Division of Apprenticeship Standards only spends \$75,000 General Fund on complaint investigations. To realize the level of savings estimated by the LAO, the Division of would be required to make other program reductions. According to the Department, a \$1.7 million General Fund reduction would force DAS to close two to three District offices, and would result in numerous staff layoffs. The remaining staff will not be able to handle the workload of monitoring and overseeing over 70,000 apprentices in California, and assisting employers in staying compliant with laws and regulations.

**Subcommittee request:** The Subcommittee has requested that the Legislative Analyst's Office briefly describe their option to consolidate complaint investigations for General Fund savings of \$1.7 million. The Subcommittee has requested that the Administration discuss the programmatic impact of the LAO option.

## **2. Implementation of Workers' Compensation Reforms**

**Background:** The Division of Workers' Compensation (DWC) is the state entity that oversees the administration of workers' compensation benefits to approximately 1.5 million Californians who are injured on the job each year. The DWC administers California's exclusive judicial system for resolution of work injury claims. The DWC is also responsible for implementation of recent workers' compensation reforms designed to reduce program costs, increase system efficiency and facilitate prompt resolution of claims. Recent reforms include activities to reduce medical care utilization and costs, development of medical and pharmaceutical fee schedules, and efforts to better manage the care of patients receiving care through workers' compensation. Completion of the required activities and implementation of reforms is critical to realize savings in the workers' compensation system.

**Subcommittee request:** The Subcommittee requested that the Department of Industrial Relations provide an update on the implementation status of worker's compensation reforms. The Subcommittee has requested that the Administration discuss efforts to assess the level of resources necessary to implement reforms and the process to assure necessary staffing and funding is available to implement reforms and realize workers' compensation savings.

## **3. Industrial Welfare Commission**

**Background:** The five-member Industrial Welfare Commission was established in 1913 to investigate the safety and welfare of women workers and child workers in California. It was expanded in 1976 to encompass all workers. Its statutorily established duties include the investigation of labor conditions and promulgation of regulations that

---

promote the health and welfare of the California labor force. The Commission is also required to examine the adequacy of the minimum wage every two years.

The Commission's budget was reduced by 50 percent last year due to state budget constraints and concerns regarding the Commission's activities and its commitment to fulfill its statutorily established mission. The Commission, citing budgetary constraints, reports that it has not accepted new petitions for amendments to wage orders nor has it begun a review of the minimum wage than should have begun in November of 2003.

**Governor's Budget:** The budget provides \$235,000 General Fund for the Commission.

**Subcommittee request:** The Subcommittee has requested that the Industrial Welfare Commission provide an update on its activities and the extent to which it is meeting its statutory requirements.

**Budget issue:** Does the Subcommittee wish to maintain the proposed funding for the Industrial Welfare Commission?

---

**8955 Department of Veterans Affairs**

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity of becoming homeowners through the medium of loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided. The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services.

**Budget:** The Governor proposes total expenditures of \$293.7 million (\$61.2 million General Fund), a decrease of \$10.4 million from the current-year budget.

**VOTE ONLY ITEMS****1. Alcohol Dependency Treatment Program**

**Background:** California's Veterans Home in Yountville operates a licensed residential substance abuse treatment program. The program is staffed by 6 employees and has a budget of \$450,000. According to the Department, the residential program has limited utilization. It serves an average of one patient per day. Alternatives to the program include outpatient programs, community based programs and inpatient or residential treatment programs available at other facilities.

**Governor's Budget:** The budget proposes to eliminate the treatment program for savings of \$450,000 and a reduction of 6 positions.

**Budget issue:** Does the Subcommittee wish to adopt the proposed reduction?

**2. Security Contract - Chula Vista**

**Background:** The Governor's Budget proposes to reduce the current security contract for the Veterans Home in Chula Vista from two officers to one officer per shift for savings of \$224,000. The contract change is contingent on a minor change to the facility/campus.

**Budget issue:** Does the Subcommittee wish to approve the proposed reduction?

**3. Consolidation of Veterans Home Distributed Administration**

**Background:** Currently funding and positions for various Department of Veterans Affairs and Veterans Homes administrative activities are approved as part of the budget for individual homes. Positions that have been with the Department since the mid-1990's to

---

perform budgeting, fiscal oversight and other administrative activities are funded from individual homes. The Governor's Budget proposes to shift 41 positions and \$3.4 million in funding from individual homes to the department for administrative activities.

**Budget issue:** Does the Subcommittee wish to approve the proposed funding and position shift from individual homes to the Department of Veterans Affairs?

## ITEMS FOR DISCUSSION

### **1. Quality Assurance Oversight**

**Background:** The Governor's Budget proposes to redirect 6.0 positions and \$670,000 from individual Veterans Homes to the Department of Veterans Affairs for program oversight and quality assurance activities. Specifically, the Department intends to create a state organization of medical, clinical and administrative experts to improve quality of care, assure regulatory compliance and secure maximum reimbursement collection at the homes. The budget proposes to shift to the Department two license vocational nurses, a chief of medicine and an executive secretary from Yountville, a supervising registered nurse from Chula Vista and a pharmacist from Barstow. According to the Department, all the positions to be shifted are currently vacant.

**Budget issue:** Does the Subcommittee wish to approve the proposed funding and position redirect from individual homes to the Department of Veterans Affairs?

### **2. Contract for Food Services and Security Functions**

**Background:** The Governor's Budget proposes a \$569,000 reduction in General Fund support and the elimination of 120 positions currently providing food and security services at the Yountville home. The budget proposes to contract with a private entity for these services and assumes that contracting out would save 8 percent of current costs.

Both the Barstow and Chula Vista homes contract out for these types of services. Unlike Yountville, they began using private contracts upon their opening. According to the LAO, under current law the department would face a number of hurdles to contract out for these services at the Yountville home, as contracting would displace state workers. The department's savings projection depends on beginning to lay off staff in July 2004. The constitutional amendment proposed by the Governor to facilitate contracting for services provided by state workers will not be considered by the voters until the November 2004 ballot at the earliest. Consequently, the savings projection for the budget year is overstated.

**Subcommittee request:** The Subcommittee has requested that the Administration describe the proposal and that the LAO comment on their analysis. The Subcommittee has also requested that the Administration comment on the programmatic impact of reducing funding for the Department and the Veterans Homes by \$569,000.

---

### **3. Morale, Welfare and Recreation Fund**

**Background:** Senate Bill 281 (Chesbro), Chapter 902, Statutes of 1999 established the Morale, Welfare and Recreation Fund to consolidate profits from various Veterans Home operations, revenue derived from the issuance of prisoner-of-war special license plates, donations and funds derived from the estates of deceased members. Moneys from the fund are used at the discretion of the Veterans Home administrator to provide for the general welfare and recreation of veterans, not to cover program costs or medical care costs. Since 1999, the Fund balance of the Morale, Welfare and Recreation Fund has risen to \$4.5 million. Revenues have outpaced expenditures by an average of \$1 million per year.

**Governor's Budget:** The Governor's Budget proposes legislation to require that funds derived from the estates of deceased members be used as reimbursement to the Veterans Home General Fund appropriation for savings of \$1.35 million in the budget year. The budget would permit use of the continued expenditure of the Morale, Welfare and Recreation Fund balance for the general welfare and recreation of veterans.

**Subcommittee request:** The Subcommittee has requested that the Administration describe the budget proposal and its impact on funding available for activities that support the general welfare and recreation of veterans.

**Budget issue:** Does the Subcommittee wish to adopt the proposed legislation to require that funds derived from the estates of deceased veterans be used to as a reimbursement for Veterans Home costs?

---